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SENSITIVE

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TAGS: [MARR](#) [MCAP](#) [BEXP](#) [BR](#) [POL](#) [MIL](#)

SUBJECT: BRAZIL'S F-X PROGRAM: NO MATTER WHO WINS TENDER,
MOD SUPPORTS EMBRAER

Classified By: PolCouns Dennis Hearne, reasons 1.5 (a) & (d)

Embraer, a Winner No Matter What

¶11. (SBU) Although no announcement has been made on the selection of the Brazilian Air Force's (FAB) next high performance jet fighter, the F-X, the GOB could be setting the stage for a decision on the purchase of the 12 aircraft. In the F-X competition, Embraer is currently partnered with Dassault in offering the Mirage 2000-5. According to an "O Globo" press report, Minister of Defense Jose Viegas told a business audience that, regardless of the outcome of the competition, and even if it loses in its joint bid with Dassault, Brazil's aviation giant Embraer "ought to be contracted to provide specific services" to the winning consortium.

¶12. (SBU) The F-X selection will be made by the National Defense Council in the presidency which has already received technical input from the MOD. The GOB has missed a number of self-imposed deadlines for a decision on the F-X, and the wait could be extended further. In discussing MOD procurement priorities, Minister Viegas said in the March 8 Sao Paulo Gazeta Mercantil that the F-X decision "will be made this year" -- a statement that hints an announcement may not be forthcoming soon.

The U.S. Offer

¶13. (SBU) Lockheed Martin has given up its attempt to partner with Varig Engineering and Maintenance (VEM). A subsidiary of Varig, VEM was unresponsive to Lockheed Martin's proposed program to offer refurbished F-16s. Observers agree that Varig's current financial woes, and its epileptic merger effort with rival TAM, may have forced VEM to remain on the sidelines. While Lockheed Martin's F-16 offer remains in the F-X competition, the company lacks a strong Brazilian mate in its tender and this likely limits Lockheed's prospects.

¶14. (C) In a conversation March 10 with visiting CJCS General Myers, Minister Viegas commented that Lockheed-Martin's best and final offer (BAFO) for new F-16s left him with the impression the company "was not serious" about winning the competition. The Minister also expressed concern about restrictions imposed by USG in case Brazil was to buy US weapon systems, in particular the AAMRAM missile, and appeared surprised when told the GOB had been provided written assurance from the USG that the AAMRAM is available without strings attached. The Minister also appeared unaware that the Netherlands had made available recently, for just \$8 million each, refurbished used F-16s that are comparable in performance to new aircraft.

¶15. (C) Comment: While the USD 700 million F-X program price tag still causes sticker shock, there is no indication at this time the Ministry of Defense will lower its aspirations for new rather than used aircraft. But two trends appear evident: the GOB may be delaying a decision for budgetary or other reasons, and the eventual tender winner will have to give Embraer a piece of the action.

Virden